



## 2009 Industry Leaders Roundtable

J.W. Marriott - Miami, Florida

15 January 2009

### Executive Summary

© CoreNet Global 2009

The 2009 CoreNet Global Industry Leaders Roundtable, held in Miami 15 January, reflected the corporate real estate (CRE) industry's intense focus on the state of the economy and its impact on corporate strategy, CRE practices, capital spending, investment, transactions, the property markets and other factors.

A total of 45 senior-level executives from both the supply and demand sides of the industry took part in the day-long program, which CoreNet Global convenes annually to assess the current and future state of the CRE industry.

CoreNet Global's CEO **Dr. Prentice Knight** opened the Roundtable by comparing a complex set of dynamics and the recession itself to "the 800-pound gorilla in the room."

#### *The Economy as the 800-Pound Gorilla*

"An overbearing entity in a specific industry or sphere of activity (with) a seemingly unbeatable presence always to be reckoned with; whose experience, influence and skill threatens to defeat competitors with little effort."

- Urban Dictionary.com

The first presentation of the day featured **Kenneth Rudy, President & COO of Capital Markets, Jones Lang LaSalle.**

Turbulence and uncertainty – two of the downturn's hallmarks – grew more pronounced as the recession took hold on the U.S. economy in December 2007 and spread to Asia, the U.K. and Europe.

*Predictions of when the recession might end have become "a fool's game," largely because of the constantly-changing global economic landscape, according to Rudy.*

The main problem and solution for CRE and much of the economy in general is availability of and access to capital, so that Rudy framed the downturn around the idea of a currently negative “psychology of liquidity,” which should improve with capital markets in 2009 as the commercial markets bottom out.

A series of factors once favored, and now challenge, both the economy and the CRE industry:

- What was ‘a wall of capital’ is now a capital crunch
- Equity priced as debt is now debt priced as equity
  - o Lenders are charging big premiums to borrow
- Laissez-faire government is now government as lender of last resort
- A ‘contained’ financial crisis now a global recession

The notion of the ‘de-coupling’ of global regional markets has been debunked, underscoring the ‘fungible’ nature of the globally networked economy – both the up and down sides.

Contributors to the economic storm:

- Mortgage backed securities sliced repeatedly into derivatives, also known as ‘shadow banking’
- Credit default swaps as another form of derivatives
- Opacity, or lack of capital market transparency
- Lack of confidence in financial institutions
- Global and inter-market linkages
- Removal of home equity stimulus from the economy
- Mark-to-market of assets accounting rules

*A “major upcoming refinancing risk” lies ahead and poses yet-unseen further hazards to our industry, Rudy foresees. Without the usual levels of capital available to the commercial markets, the refinancing issue could also deliver another blow to the macro-economy.*

Fixing the problem:

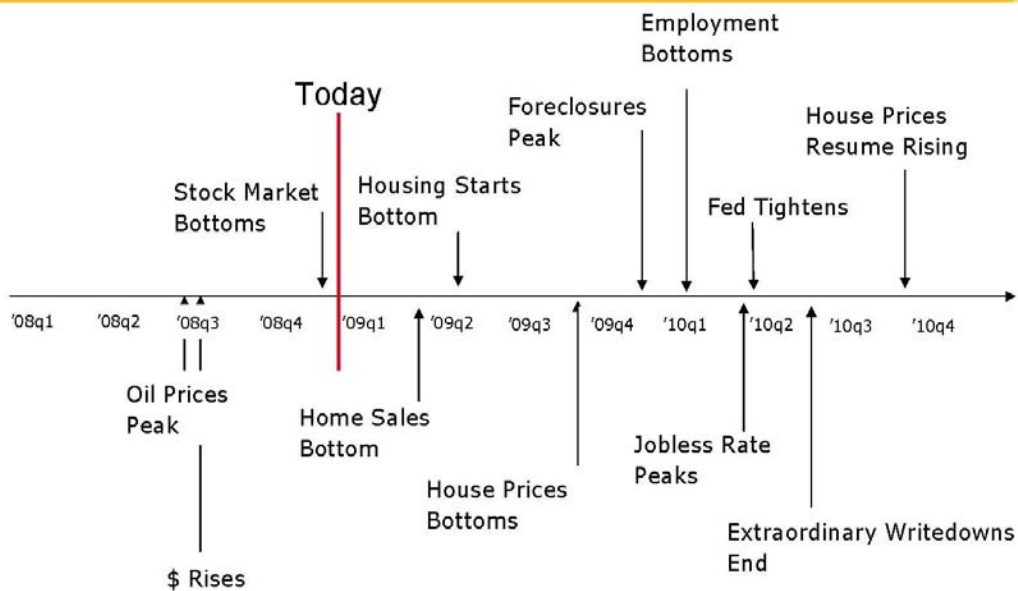
By restoring liquidity and access to tier-one capital, conditions will greatly improve:

- The financial decks must be cleared
- New regulatory frameworks come into play
- Tighter (CMBS) underwriting requirements will be put to work
- Opportunity funds will bring new capital
  - o Especially when the bid-ask spread closes
- Monetary and fiscal stimuli will also help bring relief

Prospects for recovery:

Rudy offered a look at Moody's timeline for recovery (below), tempered by the fact that this more recent version (January 2009) shows an upturn starting later in 2010 than the previous rendition (October 2008).

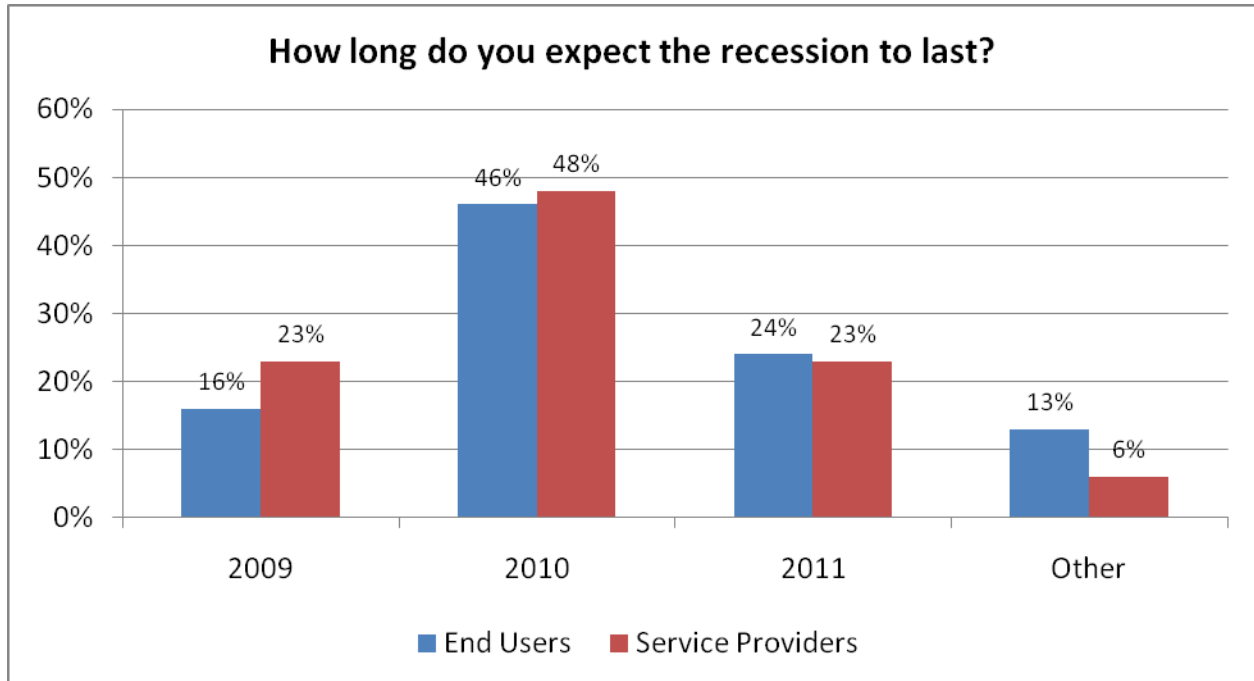
## A possible timeline to recovery



There are a number of other “silver linings:”

- Record-low residential mortgage interest rates for fixed 30-year loans
- Creation of new investment opportunities
- One company's loss spells another's gain
- 'Tremendous opportunities' for healthy companies to acquire assets at deep discounts
- 'Stratifying' of corporate and commercial portfolios between core and non-core properties, and the ability 'to go long' to save big on quality leasing deals

As for when industry professionals expect the recession to end, there's general agreement in *recent CoreNet Global member surveys* with the Moody's timeline that economic recovery will come in 2010.



At the enterprise level, CRE is increasing densification and deferring capital projects.

**Strategies companies are using to reduce costs associated with the portfolio of leased and owned property**

- Redesign office space to increase density 70%**
- Deferment of capital projects / Expansion plans 70%**
- Implement telework programs 58%**
- Accelerate projects that reduce ongoing expenses 52%**
- Restructure leases 43%**
- Shift work to lower cost locations 43%**
- Move to lower cost facilities 38%**
- Cancel capital projects / expansion plans 38%**
- Reduce / Defer maintenance 32%**
- Sale of owned properties 23%**
- Exercise early termination options in leases 20%**

In a sense, participants noted that CRE's mandate to deliver value to the enterprise is the only constant – whether the economy is in recession or not. “We can't sacrifice the portfolio to the economic cycle,” is how one executive characterized the current situation. “We have a responsibility to keep an eye on the long term.”

### **Setting the Current Context for Corporate Real Estate Management & Performance**

<b>Career Management</b> →	<b>CRE Tools</b> →	<b>CRE Goals</b> → <b>VALUE</b>
Jobs, career opportunity	Portfolio management	Managing costs
Skills enhancement	Outsourcing	Managing risk
Contacts	Lease negotiation	Property market opportunities
Networks	Location strategies	Labor market opportunities
	Workplace practices	Post-recession growth position
	Sustainability/CSR	Long-term growth position
<i>Ongoing but more pronounced during a recession</i>		
<i>Source: 2009 State of the Industry Report</i>		

### **Roundtable Comments on the Portfolio as an Economic Hedge**

- “We’re cutting everything that’s left to cut, even not snow plowing the top levels of our parking decks.”
- “Accurate (space) demand forecasting will remain very difficult, so flexibility is a key. How do we quickly ramp up or ramp down?”
- “We must provide for (lease) termination options and flexibility. Core space today might not be core in five years.”
- “We’re moving 500 jobs from one U.S. location to another rather than taking them somewhere else like India (because) of costs leveling.”
- “We’re leasing our rooftops for solar power to create supplemental revenue.”
- “Location decisions are now linked directly to energy costs and energy taxes.”
- “Space is working capital.”
- “There are opportunities to leverage cash and ‘go long’ with some property leases. We see 2009 as a tough year globally but not as a disaster.”
- “We’re spending less in some regions to invest more in others.”
- “We’re facing a wide variety of conditions as we trade globally. West to east, it tends to get better although the U.K. is looking gloomy.”
- “We saw an over-correction to the upside for the better part of five years. Now, it’s become an over-correction to the downside.”
- “We’ve recognized the \$1.5-trillion in (residential) mortgage debt in the U.S., but the commercial mortgage debt is maturing and is about to hit.”
- “The big ate the small, now the fast eat the slow.”

**Mark Nicholls, Senior Vice President, Bank of America**, followed with an in-depth look at MyWork, the bank's successful alternative workplace strategy. It's paying dividends in terms of cost savings, risk management, productivity and even sustainability.

The value proposition reflects all four:

- Lower occupancy costs per employee (averaging \$5,500 in savings per person)
- Higher associate or worker satisfaction (+14%)
- Complementary to business continuity preparation (increased flexibility)
- Positive impact on the environment and community (less energy consumption)

MyWork has become a talent recruiting vehicle, too. For example, the bank markets to college recruits, who regard flexible working terms as a 'top five' employment criterion.

## College Recruiting Success

---



**Bank of America**  
Bank of Opportunity™

### Opportunity for Flexibility™

At Bank of America, we understand the importance of a healthy work/life balance. That's one of the reasons why we've implemented a number of programs like My Work™.

My Work™ promotes and supports flexible work arrangements to associates. With My Work™, "flexible" associates exchange their single dedicated workspace for access and use of a network of spaces. This option provides our associates with a flexibility not found in many other companies.

Example of the new E-Cards that campus recruiters can send to students as a way of introduction or follow-up to a conversation. Currently there are 6 cards targets at student interests and My Work is featured in one.

## MyWork's Reach:

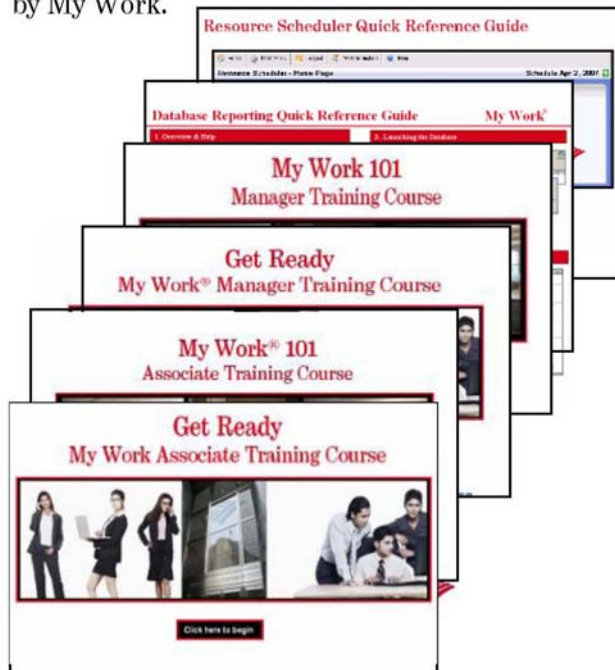
- Started in 2005 with 1,000 workers
- By 2008, 9,000 employees were enrolled
- By 2009, the plan calls for 15,000 participants
- By 2013, it should total 25,000+ or roughly 15% of the total workforce

A centerpiece of the program is a 'how to use MyWork' educational focus. "You can't participate without the training," as Nicholls pointed out. The education model covers training and provisioning for all levels of the workforce, including a set of "learning solution tools."

*Associate and manager training courses are solutions tools that accelerate change. As important, they also house MyWork's intellectual capital, or the wide-ranging taxonomy of best practices and processes that define the program.*

## Learning Solution Tools to Accelerate Change

The My Work education plan supports the learning needs for each audience impacted by My Work.



### My Work Learning Solutions

- **My Work 101 for Associates:** Web-based training giving an overview of the My Work program and flexible work style, directed toward associates.
- **My Work 101 for Managers:** Web-based training giving an overview of the My Work program and flexible work style, directed toward associates.
- **Get Ready Training for Associates:** Comprehensive web-based training course for associates entering the My Work program.
- **Get Ready Training for Managers:** Comprehensive web-based training course for managers with associates entering the My Work program.
- **Manager and Associate FAQs**
- **Get Ready Checklists:** Lists of actions steps, in the order to be taken, in order to enroll associates in My Work.
- **Q&A scripts:** Scripts with talking points to guide facilitators in leading live Q&A teleconference sessions.
- **Supporting training documents** for additional audiences identified, including: Business Director and LOB Planner, Project Management, Portfolio, NCG, HR, ISBC, and Risk.

In relating to the business units, Nicholls stressed the need for “CRE executives to connect to their general management clients’ income statements,” cautioning that without a full knowledge of the total business, particularly cash flow, CRE credibility is at risk. This is one area in which CRE needs to do a better job to keep its seat at the table.

Comments on relating AWS to the business units:

- “It’s not about selling anything to the business units or employees. It’s about providing solutions.”
- “We used 24-year-olds as the early adopters. It was a more provocative way to do change management versus using standard communication channels.”
- “The simplest way to keep from getting outsourced is to pretend you already are.”
- “Are you on the speed dial of your (business unit) general manager’s phone?”
- “The art of asking the difficult question and making the difficult decision is flagging. It’s a senior-level CRE competency.”
- “If the right questions are asked, the right solutions will come.”

### ***MyWork: Lessons Learned***

- Keep it simple
  - Build around the business
  - Start with early adopters
  - Let the business own change
  - Don’t underestimate resistance
  - Create a bias toward action and change
  - Enable management to make decisions
  - Find one executive and get behind him/her
  - Communication and education are critical
  - What works for one company may not for another
  - Receptivity doesn’t always vary from staff to line functions
  - CRE: this is bigger than you, it’s about the enterprise
- 

## **ROUNDTABLE DISCUSSION**

### **Looking Ahead: The Demand and Supply Sides Five Years from Now**

#### CRE Value Proposition

End users see the future value proposition revolving around a more evolved service delivery model internally. This also implies more advanced supplier management.

The growing CRE focus on finance and asking business questions will intensify.

The role of CRE will also become more consultative, consistent with the long-term goal for CRE to play the role of ‘trusted advisor,’ especially in rapidly-emerging areas like managing and measuring the carbon footprint, green buildings and energy management.

Other key points:

- Enterprise alignment will become more of a standard for CRE, less of the exception
- In tandem with alignment, CRE governance influence over business units will continue to expand with the growing centralization of the function
- Cost management and cost cutting are permanent states, like change
- Another enabler of a higher-level strategic positioning for CRE will be the growing C-Suite mandate for CRE to control capital expenditures
- Portfolio management emphasis on flexible leasing will continue but better use of space becomes even more pronounced
- Forecasting headcount and future space demand will get even more critical than it is now
- The ability to convert CRE metrics to key performance indicators for the business and C-Suite means performance management will also grow in importance
- In general, CRE will be regarded more strategically to support the needs of the business and will be judged on its degree of responsiveness and flexibility

#### Competencies to meet the changes

- Broader business education
- Strategic thinking
- Business acumen with leadership qualities
- Providing solutions
- Collaboration skills to work with HR, Finance, IT, etc.
- Negotiating skills and ability to build alliances
- Knowing the culture and the politics of the organization
- Change management skills are important, like business knowledge
- Measuring talent: How to retain and reward CRE people who are worth more
- Talk in business terms
- CRE people were 'doers' before, now they're 'overseers'
- But some find this a hard transition to make or complete

#### Outsourcing

Corporate end users don't see the degree of CRE outsourcing decreasing. Most believe it will remain at currently robust levels, but a growing number expect even more growth in outsourcing, especially as the future service delivery model becomes more sophisticated.

- Increasingly centralized CRE models tend to be leveraged more through outside partners
- As one participant said, 'We're not going back to large internal teams'

- Still, as another pointed out, you've got to 'keep a strategic (internal) core that understands the business'
- Technical positions can and probably will be outsourced
- Flexibility in terms of inside and outsourced headcount will also remain a key factor
- 'Companies want this from their service providers,' another participant noted

Worth noting: "I think all the providers are going to become a big network of equals" in order to address future client needs, especially on the global scale, as was also stated.

### The Service Provider View

Service providers expect outsourcing to remain a "core necessity" for their corporate clients, mainly because of the strategic needs outsourcing addresses and the value created.

"Corporations would be worse off without this (outsourced) collaboration, especially with today's economy," as one service provider observed.

Senior executives for the global service provider firms at the Roundtable conveyed these key points:

- Outsourcing will increase in the future
- Service delivery will get more sophisticated, like CRE management is getting
- Service provider consolidation will continue
- Restructuring will continue as more mid-level providers get 'squeezed'
- As outsourced partners assume more risk, there could be a major service provider 'account failure' ahead
- The compensation model will change to risk-reward from fee-based

Other key points:

- Outsourcing is also very consistent with the globally networked business model
- We'll evolve away from the term 'outsourced' to the concept of 'support network'
- Service providers will themselves outsource more to other service providers

Three biggest changes ahead for service providers:

- The shift to the networked support model and integrated supply chain mentality with a collaborative overtone resulting in multiple partners working together
- The "shift to the left" reflecting a continuous evolution toward what one service provider called "the whole life cycle containment approach" also bringing a need for more strategists, critical thinkers and inter-disciplinary skill sets
- Strategy and its rewards will win out over transactions and short-term returns

## **2009 CoreNet Global Industry Leaders Roundtable**

### **Acknowledgments**

#### **Host**

Miami Dade Beacon Council

#### **Sponsors**

BHDP Architecture

Miami Dade Beacon Council

#### **Networking Sponsor**

Johnson Controls, Inc.

#### **Facilitators**

Dr. Prentice Knight, Chief Executive Officer, CoreNet Global

Tim Venable, Director Knowledge Services, CoreNet Global

#### **Report Author**

Richard Kadzis, CAE, Director Special Projects, CoreNet Global

#### **Presenters**

Kenneth Rudy, President, COO of Capital Markets, Jones Lang LaSalle

Mark Nicholls, Senior Vice President, Bank of America

#### **Program Support**

Eric Bowles, Vice President, Business Solutions, CoreNet Global

Michael Anderson, Research Analyst, CoreNet Global

#### **Program Logistics**

Nicki Williams, Administrative Assistant, CoreNet Global Knowledge Team

Linda Allen, Executive Assistant, CoreNet Global Learning Team

#### **Strategic Partners – Gold Level**

CB Richard Ellis

Cushman & Wakefield

Deloitte

DTZ

Johnson Controls

Jones Lang LaSalle

Microsoft

### Strategic Partners – Silver Level

Colliers International  
CresaPartners  
EMCOR Facilities Services  
Manhattan Software  
NBBJ  
Steelcase  
Tandus  
Tishman Speyer Properties

### Strategic Partner – Bronze Level

Metro Atlanta Chamber of Commerce

### Corporate Partners

ABB Asea Brown Boveri	Medtronic
Adobe Systems	Merck & Company
Allstate	Microsoft
American Express	Motorola
AT&T	Nokia
BBC	Nortel Networks
BP	Oracle
Capital One Services	Pfizer
Cisco Systems, Inc.	Quest Diagnostics
Coca-Cola Company	Rockwell Automation
Exxon Mobil Corporation	Royal Bank of Scotland
Fannie Mae	Shell International
Ford Land	Siemens
General Electric	Sprint
General Services Administration	Sun Microsystems
GSA: Office of Applied Science	The Travelers Companies
Herman Miller	United Technologies
Hewlett Packard	USAA
Kaplan	Verizon
Manpower	Walt Disney Company
Marsh & McLennan Real Estate	Whirlpool
McKesson Corporation	